

MALAYSIAN BANKS **Quarterly Review**

Quarterly review & sector outlook



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4QCY14: Modest net income growth but dampened by higher provisions for loan impairment

Maintain NEUTRAL

- 4QCY14 aggregate core net profit growth was weaker at -5.0%yoy after adjusting for one-off items. This was largely due to higher provisions for loan impairment of CIMB despite of a pickup in NOII for the sector. 4QCY14 results of 4 banks (Public Bank, RHB Cap, Hong Leong Bank and AFG) came in within expectations while the reported earnings of 2 other banks (CIMB and AMMB) fell below our expectations. Earnings of 2 banks (Maybank and Affin) exceeded our expectations as these banks reported lower provisions for loan impairment against our forecasts. Aggregate PATAMI growth for the sector based on reported earnings was -6.8%qoq and -6.2%yoy. After adjusting for one off items, aggregate PATAMI growth was -5.1%qoq and -5.0%yoy in 4QCY14.

Improvement was observed in the aggregate reported net income with a growth of +3.7%qoq and +2.6%yoy in 4QCY14. Nevertheless, higher provisions for loan impairment brought the sector's net profit lower compared to the preceding quarter. Excluding the one-off items, growth in core net income was +3.1%qoq and +1.8%yoy.

Compared to the preceding quarter, growth in Net interest income (NII) was weaker in 4QCY14 at -0.1%qoq and +4.4%yoy. Despite of the faster pace in loan growth of 4.6%qoq or 11.6%yoy, growth in NII decelerated in 4QCY14 due to contraction in NIM. NIM contracted 7bp qoq in 4QCY14 after expanding 2bp qoq in 3QCY14 on the back of a higher OPR of 25bp on 10th July 2014. Moving ahead, pressures of asset yield and COF are likely to continue to impact bank's NIM. Meanwhile, growth in the average sector's reported Non interest income (NOII) improved at +1.2%qoq and +14.7%yoy largely due to a pick in Maybank's NOII while growth in Islamic Banking income was slower at -1.7%qoq and -1.3%yoy in 4QCY14.

Allowance for loan impairment jumped 54.6%qoq largely due to higher impairment of CIMB arising from further provisions made for Niaga's coal and coal related loans as well as on a local corporate loan in 4QCY14. The sector's annualised credit cost rose to 0.26% from 0.17% in the previous quarter. Aggregate overhead expenses for the sector grew +8.4%qoq. JAW was negative in 4QCY14 with the growth in OPEX of +8.4%qoq outpacing net income of 3.7%qoq.

Liquidity continues to remain tight with an average Net LD ratio of 89.4%. Slower CASA growth continues to be evidenced for the sector.

Chart 1: Sector Aggregate Core Earnings (RM'Mil)

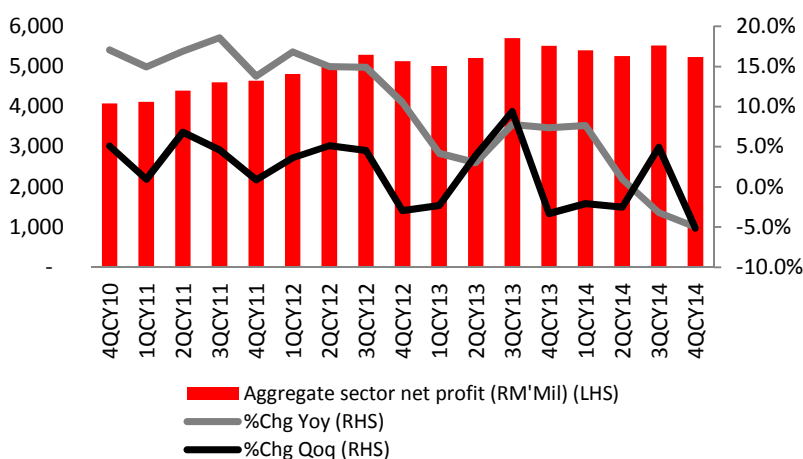


Table 1: Reported Net Profit Comparison (RM'Mil)

Bank	Sept-13 (3QCY13)	Dec-13 (4QCY13)	Mar-14 (1QCY14)	Jun-14 (2QCY14)	Sep-14 (3QCY14)	Dec-14 (4QCY14)	%Qoq	%Yoy
AMMB	441	423	464	537	446	417	-6.5%	-1.5%
Maybank	1,746	1,732	1,602	1,576	1,608	1,931	20.1%	11.5%
Public Bank	1,047	1,026	1,017	1,056	1,192	1,254	5.2%	22.3%
RHB Cap	559	505	451	562	545	486	-10.7%	-3.6%
Hong Leong	544	520	500	537	548	552	0.7%	6.0%
CIMB	1,062	1,006	1,067	950	890	200	-77.5%	-80.1%
AFG	131	137	158	131	180	126	-29.9%	-7.4%
Affin	173	167	143	115	142	209	46.9%	25.0%
Total	5,704	5,515	5,400	5,464	5,550	5,175	-6.8%	-6.2%

Table 2: Core Net Profit Comparison (RM'Mil)

Bank	Sept-13 (3QCY13)	Dec-13 (4QCY13)	Mar-14 (1QCY14)	Jun-14 (2QCY14)	Sep-14 (3QCY14)	Dec-14 (4QCY14)	%Qoq	%Yoy
AMMB	441	423	464	329	446	417	-6.5%	-1.5%
Maybank	1,746	1,732	1,602	1,576	1,608	1,931	20.1%	11.5%
Public Bank	1,047	1,026	1,017	1,056	1,192	1,266	6.3%	23.5%
RHB Cap	559	505	451	562	545	486	-10.7%	-3.6%
Hong Leong	544	520	500	537	548	552	0.7%	6.0%
CIMB	1,062	1,006	1,066	950	890	252	-71.7%	-74.9%
AFG	131	137	158	139	153	126	-17.6%	-7.4%
Affin	173	167	143	115	142	209	46.9%	25.0%
Total	5,704	5,515	5,400	5,264	5,523	5,239	-5.1%	-5.0%

Table 3: Annualised ROE of banks by quarters (%)

Bank	Sept-13 (3QCY13)	Dec-13 (4QCY13)	Mar-14 (1QCY14)	Jun-14 (2QCY14)	Sep-14 (3QCY14)	Dec-14 (4QCY14)	2015 ROE guidance
AMMB	14.1	13.5	14.4	15.9	12.9	12.0	Circa 14.0%^
Maybank	15.7	15.3	13.6	13.0	13.0	15.0	13.0-14.0%
Public Bank	21.9	20.7	19.9	20.2	19.8	18.3	>16.0%
RHB Cap	13.9	12.2	10.6	12.9	12.1	10.5	>11.5%
Hong Leong	16.3	15.2	14.4	15.1	14.8	14.5	>14.0%^
CIMB	14.1	13.4	13.0	10.7	9.8	2.2	11.0%
AFG	12.7	13.4	15.4	12.6	17.0	11.6	14.0-16.0%**
Affin	10.8	10.4	8.8	7.0	7.8	10.7	n.a

^Represents ROE target for FY15

**Represent 3 years medium term ROE target for FY12-FY15. Management highlighted challenges in meeting the target.

Source: Companies, MIDFR

Loan growth gained momentum. Most banks reported a stronger loan growth in 4QCY14. Growth in aggregate sector's gross loan growth grew at a faster pace of +4.6%qoq or +11.6%yoy.

Of the notable increases, Maybank's loans grew at a faster pace, contributed by a stronger momentum of its international loans, mainly from Maybank Singapore. Meanwhile, CIMB's loan growth improved attributed to an acceleration of its Retail Financial Services loans at +14.1%yoy with stronger momentum in mortgage loans, auto loans, credit cards, micro credit and enterprise loans. In addition, CIMB Niaga's

loans also grew at faster rate of +12.4%yoy supported by stronger momentum for Consumer, SME Banking and Corporate loans also gained momentum. For RHB Cap, both its domestic and international loans grew strongly at +14.0%yoy and +57.0%yoy respectively. The faster expansion of its international loans was due to Singapore's loans which surged +61.0%yoy.

Table 4: Total Gross Loans (RM'bil)

Bank	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun-14 (2QCY14)	Sept-14 (3QCY14)	Change Yoy	FYE	2015 loan growth guidance*
AMMB^	86	87	89	88	87	+0.9%	Mar	3.0%^
Maybank	340	361	366	374	387	+13.8%	Dec	9.0-10.0%
Public Bank	216	221	227	232	237	+10.2%	Dec	10.0-11.0%
RHB Cap	121	122	126	132	136	+12.0%	Dec	10.0%
Hong Leong	98	101	102	104	104	+6.1%	June	7.0%**
CIMB	228	235	240	241	250	+9.3%	Dec	10.0%
AFG^	30	31	32	33	34	+14.9%	Mar	11.0- 12.0%^
Affin	36	37	38	38	40	+8.8%	Dec	n.a
Total	1,156	1,195	1,221	1,243	1,275	+10.3%		

*Loan growth rates at Group level guided by management

^Loan growth from Apr'14 to Mar'15.

**Loan growth from July'14 to Jun'15

Source: Companies

Table 5: Growth in Gross Loans (%Qoq)

Bank	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)
AMMB	-0.6%	1.3%	2.8%	-1.9%	-1.2%	1.1%
Maybank	2.3%	6.3%	1.3%	2.3%	3.4%	5.8%
Public Bank	2.9%	2.6%	2.5%	2.4%	2.3%	3.2%
RHB Cap	3.6%	0.3%	3.7%	4.9%	2.7%	4.8%
Hong Leong	1.1%	2.3%	1.1%	2.5%	0.2%	2.8%
CIMB	2.5%	2.7%	2.4%	0.2%	3.6%	6.1%
AFG	4.0%	2.3%	5.1%	3.1%	3.8%	3.5%
Affin	1.2%	2.9%	2.3%	0.0%	3.4%	3.6%
Total	2.3%	3.3%	2.2%	1.8%	2.6%	4.6%

Source: Companies, MIDFR

Table 6: Growth in Gross Loans (%YoY)

Bank	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)
AMMB	6.2%	6.1%	5.3%	1.5%	0.9%	0.7%
Maybank	12.0%	13.7%	13.5%	12.6%	13.8%	13.3%
Public Bank	11.8%	11.8%	11.3%	10.8%	10.2%	10.8%
RHB Cap	13.9%	9.2%	11.2%	13.0%	12.0%	17.0%
Hong Leong	7.1%	12.5%	7.6%	7.2%	6.1%	6.7%
CIMB	13.7%	12.6%	11.9%	8.1%	9.3%	12.8%
AFG	12.6%	12.8%	14.1%	15.2%	14.9%	16.3%
Affin	8.1%	7.9%	10.1%	6.6%	8.8%	9.6%
Total	11.5%	11.8%	11.3%	10.0%	10.3%	11.6%

Source: Companies, MIDFR

Table 7: Net LD Ratio (Net LDR) of Banks

Bank	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)
AMMB	94.7%	96.8%	97.2%	98.5%	99.3%	95.3%
Maybank	88.2%	89.9%	91.0%	90.6%	90.6%	91.8%
Public Bank	86.5%	87.5%	86.8%	87.1%	87.8%	88.0%
RHB Cap	87.3%	86.8%	86.6%	87.1%	90.4%	89.5%
Hong Leong	77.0%	78.5%	78.4%	78.8%	79.1%	80.3%
CIMB	84.8%	86.9%	89.4%	87.5%	92.4%	91.5%
AFG	80.5%	82.5%	81.1%	82.9%	83.7%	85.1%
Affin	80.5%	77.9%	81.6%	79.8%	79.5%	80.0%
Average	84.9%	85.9%	86.5%	86.5%	87.9%	89.4%

Source: Companies, MIDFR

- Aggregate sector NII (excluding net funding income from Islamic banking) turned softer in 4QCY14 as NIM was compressed again after an improvement seen in 3QCY14 from an OPR hike of 25bp. Reported NII grew -0.1%qoq or +4.4%yoy to RM8.7b. This was due to compression in NIM despite of a faster loan growth in the quarter. NII to total income for the sector was lower at 56.0% as compared to 58.1% in the preceding quarter.

Chart 2: Sector Aggregate NII

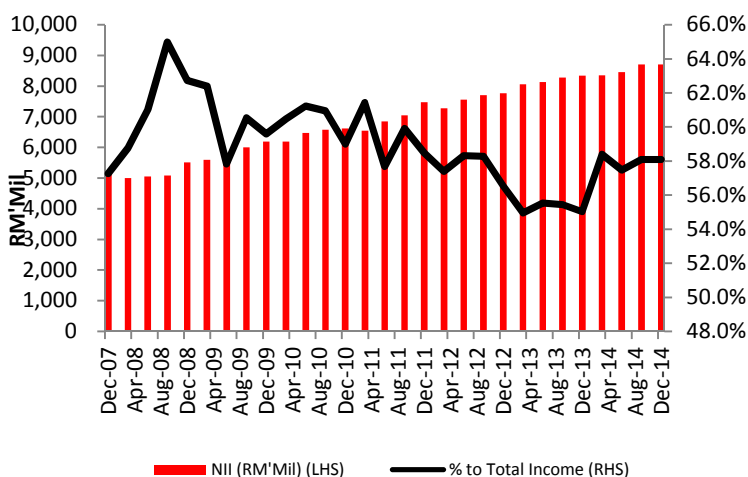


Table 8: Reported Net Interest Income (NII) (RM'Mil)

Bank	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)
AMMB	548	576	503	512	487
Maybank	2,383	2,393	2,407	2,462	2,442
Public Bank	1,414	1,403	1,422	1,551	1,555
RHB Cap	864	819	828	836	806
Hong Leong	652	678	677	715	711
CIMB	2,048	2,067	2,175	2,171	2,242
AFG	201	201	200	221	214
Affin	229	219	239	244	247
Total	8,338	8,355	8,452	8,712	8,704
% Change Yoy					
AMMB	4.4%	0.4%	-9.5%	-3.6%	-11.0%
Maybank	8.6%	-0.8%	1.8%	3.6%	2.4%
Public Bank	5.7%	3.9%	2.6%	9.1%	10.0%
RHB Cap	11.6%	5.1%	3.1%	0.9%	-6.8%

Hong Leong	5.9%	6.4%	6.3%	9.1%	9.2%
CIMB	7.4%	9.0%	10.1%	6.8%	9.5%
AFG	12.4%	7.3%	8.3%	14.8%	6.5%
Affin	-1.6%	-1.1%	4.3%	2.8%	8.1%
Total	7.4%	3.7%	3.9%	5.3%	4.4%
% Change Qoq					
AMMB	3.0%	5.2%	-12.7%	1.8%	-4.8%
Maybank	0.3%	0.4%	0.6%	2.3%	-0.8%
Public Bank	-0.5%	-0.7%	1.3%	9.1%	0.2%
RHB Cap	4.3%	-5.2%	1.1%	1.0%	-3.6%
Hong Leong	-0.6%	4.0%	-0.1%	5.6%	-0.6%
CIMB	0.7%	0.9%	5.3%	-0.2%	3.3%
AFG	4.1%	0.2%	-0.6%	10.7%	-3.4%
Affin	-3.6%	-4.2%	9.3%	1.8%	1.4%
Total	0.7%	0.2%	1.2%	3.1%	-0.1%

Source: Companies

Table 9: NII to Total Income (%)

Bank	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)
AMMB	44.6%	50.5%	34.4%	45.4%	48.2%
Maybank	50.9%	54.0%	53.7%	54.2%	48.1%
Public Bank	68.6%	68.0%	67.7%	69.0%	68.7%
RHB Cap	53.5%	55.8%	57.3%	50.7%	48.0%
Hong Leong	61.8%	71.5%	67.3%	70.5%	69.5%
CIMB	53.9%	58.4%	63.8%	61.5%	61.1%
AFG	61.0%	58.9%	59.3%	56.7%	61.0%
Affin	59.9%	59.0%	50.9%	48.3%	51.8%
Average	55.0%	58.4%	57.5%	58.1%	56.0%

Source: Companies, MIDFR

- **Sector NIM contracted by 7bp qoq in 4QCY14 after expanding 2bp qoq in the previous quarter.** The sector's NIM contracted by 7bp qoq to 2.25% in 4QCY14 due to higher funding cost from strong competition for deposits. This was due the impending implementation of LCR requirement on banks effective 1st June 2015. Recall in the previous quarter, the sector's NIM improved slightly by 2bp qoq to 2.32% due to an OPR hike of 25bp which took effect on 10th July 2014. Moving ahead, NIM of banks is expected to remain under pressure due to strong competition for loans and deposits. Nevertheless, we have factored into our earnings estimates for banks on average a lower NIM compression of 6bp in CY15 than 11bp contraction in CY14.

Table 10: Net Interest Margin (NIM) (%)

Bank	Dec-13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)
AMMB	2.65	2.77	2.45	2.54	2.38
Maybank	2.38	2.37	2.35	2.31	2.20
Public Bank	2.32	2.28	2.20	2.29	2.20
RHB Cap	2.33	2.33	2.29	2.29	2.26
Hong Leong	2.03	2.15	2.09	2.09	2.04
CIMB	2.80	2.85	2.90	2.82	2.79
AFG	2.23	2.18	2.10	2.22	2.16
Affin	1.94	1.88	1.98	1.96	1.97
Average	2.34	2.35	2.30	2.32	2.25

Source: Companies, MIDFR own estimates

The sector's CASA ratio remained stable at 27.3%. Arising from intense competition, the domestic industry CASA growth has slowed down. Based on our tracking, as of end Jan 2015, CASA growth for the sector has moderated to 4.0%yoy (Dec 2014: 8.7%yoy)

Table 11: CASA Ratio (%)

Bank	Dec-13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)
AMMB	19.7%	20.9%	21.6%	20.1%	20.5%
Maybank	36.1%	35.8%	35.7%	34.5%	35.2%
Public Bank	25.5%	25.5%	25.2%	25.0%	25.0%
RHB Cap	23.3%	23.5%	23.3%	22.6%	21.7%
Hong Leong	26.0%	26.0%	26.2%	26.2%	25.7%
CIMB	34.5%	35.8%	34.7%	35.4%	35.1%
AFG	35.2%	34.0%	34.7%	35.2%	34.8%
Affin	21.6%	21.9%	19.9%	20.4%	20.0%
Average	27.7%	27.9%	27.7%	27.4%	27.3%

Source: Companies, MIDFR

- The sector's aggregate NOII improved in 4QCY14 mainly by a pickup in Maybank's NOII. Sector aggregate NOII grew +14.7%qoq and +1.2%yoy to RM4.8b. Stripping out the one-off items, aggregate sector NOII growth was +12.0%qoq and -1.4%yoy in 4QCY14. On quarterly basis for Maybank, the improvement in NOII was due to Increase in commission, service fees and charges, investment and trading income. Also, the Group reported higher FX profit and an increase in net income from insurance business.

Meanwhile, for RHB Cap, its higher NOII on quarter to quarter basis was contributed by higher net FX income. We continue to see a good traction in RHB Cap's IB income as evidenced by its strong advisory fees and IB fees from M&A deals in 4QCY14.

Chart 3: Sector Aggregate NOII

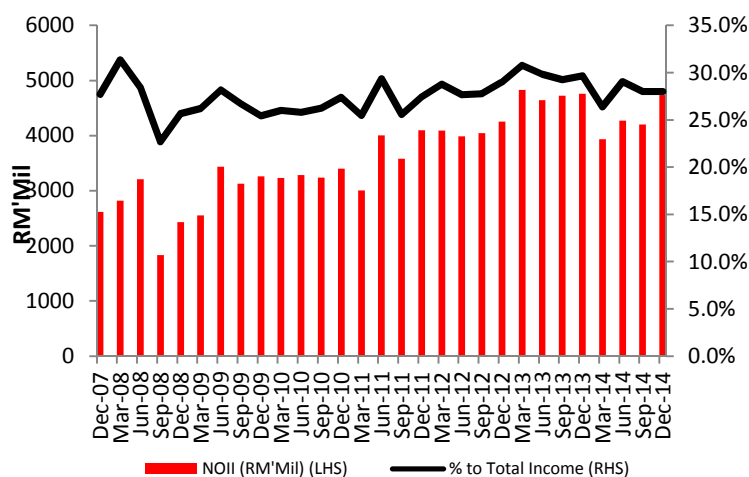


Table 12: Reported Non Interest Income (NOII) (RM'Mil)

Bank	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)
AMMB	453	315	753	393	317
Maybank	1,512	1,234	1,263	1,228	1,831
Public Bank	443	455	474	481	502
RHB Cap	590	498	434	615	671
Hong Leong	290	162	225	189	206

CIMB	1,299	1,103	871	1,002	1,052
AFG	75	88	83	93	78
Affin	97	95	172	200	162
Total	4,760	3,949	4,275	4,201	4,819
% Change Yoy					
AMMB	30.4%	-12.1%	85.7%	-7.4%	-30.0%
Maybank	0.2%	-14.3%	-29.2%	-31.9%	21.1%
Public Bank	3.0%	7.5%	6.3%	9.6%	13.3%
RHB Cap	30.6%	10.6%	-10.6%	10.9%	13.6%
Hong Leong	7.7%	-40.4%	-2.6%	-28.8%	-29.0%
CIMB	22.1%	-34.0%	-19.7%	-6.5%	-19.0%
AFG	-6.7%	-27.3%	-27.8%	32.8%	3.6%
Affin	-2.0%	-0.4%	78.3%	102.8%	66.9%
Total	11.9%	-18.2%	-8.0%	-11.1%	1.2%
% Change Qoq					
AMMB	6.7%	-30.6%	139.3%	-47.8%	-19.2%
Maybank	-16.2%	-18.4%	2.3%	-2.8%	49.1%
Public Bank	1.0%	2.7%	4.2%	1.3%	4.4%
RHB Cap	6.5%	-15.7%	-12.8%	41.7%	9.1%
Hong Leong	9.4%	-44.4%	39.1%	-15.9%	9.1%
CIMB	21.2%	-15.1%	-21.0%	15.1%	5.0%
AFG	7.1%	16.6%	-5.2%	12.3%	-16.5%
Affin	-1.9%	-1.6%	80.7%	16.3%	-19.3%
Total	0.7%	-17.0%	8.2%	-1.7%	14.7%

*Based on reported financials of companies. Source: Companies

Table 13: NOII to Total Income (%)

Bank	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)
AMMB	36.9%	27.6%	51.5%	34.8%	31.4%
Maybank	32.3%	27.8%	28.2%	27.1%	36.1%
Public Bank	21.5%	22.0%	22.6%	21.4%	22.2%
RHB Cap	36.5%	33.9%	30.0%	37.3%	40.0%
Hong Leong	27.5%	17.0%	22.3%	18.6%	20.2%
CIMB	34.2%	31.2%	25.6%	28.4%	28.7%
AFG	22.9%	25.7%	24.7%	24.0%	22.3%
Affin	25.4%	25.7%	36.6%	39.7%	33.9%
Average	29.7%	26.4%	29.1%	28.0%	31.0%

Source: Companies, MIDFR

- Sector's provisions for loan impairment rose by +54.6%qoq largely due to higher provisions for CIMB.** On absolute value basis, loan loss provisions in 4QCY14 jumped 54.6%qoq. This was contributed largely by the higher provisions for loan losses of CIMB as a result of further provisions made for coal and coal related loans as well as impaired corporate loan in Malaysia. Indonesia continues to face challenging operating conditions with more provisions to come for Niaga in 1QCY15 but a smaller amount comparatively. Elsewhere, AMMB, Maybank, Hong Leong Bank and Affin recorded write backs in provisions for loan impairment. Overall sector's GIL ratio continued to trend lower to 1.7%. Average loan loss coverage (LLC) ratio for the sector rose slightly to 95.9% vs. to 94.8% in the preceding quarter. RHB Cap remained lowest among peers in terms of LLC ratio with Hong Leong Bank the highest.

Table 14: Gross Impaired Loan (GIL) Ratio (%)

Bank	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)
AMMB	1.98%	1.86%	1.87%	1.79%	1.88%
Maybank	1.48%	1.52%	1.50%	1.65%	1.52%
Public Bank	0.67%	0.66%	0.65%	0.65%	0.61%
RHB Cap	2.81%	2.54%	2.45%	2.29%	2.03%
Hong Leong	1.33%	1.24%	1.18%	1.15%	0.98%
CIMB	3.15%	3.07%	3.12%	3.28%	3.09%
AFG	1.53%	1.38%	1.36%	1.20%	1.14%
Affin	1.98%	1.92%	1.91%	1.91%	1.82%
Average	1.84%	1.78%	1.76%	1.81%	1.70%

Source: Companies, MIDFR

Table 15: Loan Loss Provisions (RM'Mil)

Bank	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)
AMMB	(35)	(64)	(81)	(5)	57
Maybank	55	(210)	(154)	(71)	35
Public Bank	(90)	(85)	(65)	(47)	(63)
RHB Cap	(119)	(54)	(17)	(94)	(40)
Hong Leong	(21)	(25)	(24)	15	54
CIMB	(308)	(111)	(147)	(344)	(919)
AFG	(3)	18	(1)	7	(27)
Affin	31	6	(29)	(13)	51
Total	(491)	(526)	(519)	(551)	(853)
(% qoq growth)	-14.7%	+7.1%	-1.3%	+6.3%	+54.6%

() denotes provision for loan losses

Source: Companies, MIDFR

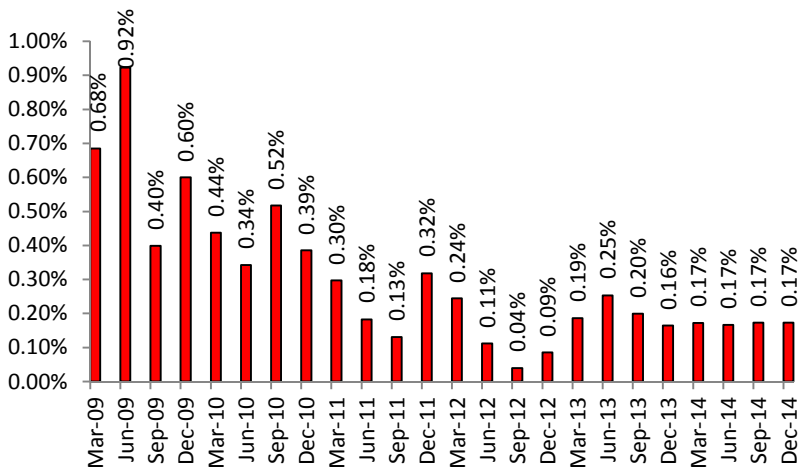
- **Sector annualized credit cost rose to 0.26% largely due to higher provisions at CIMB.** Sector average annualized credit cost rose to 0.26% from 0.17% in the previous quarter (see Chart 4 and Table 16). Contributing largely to this was a higher credit cost for CIMB. Meanwhile, AFG's credit cost rose to 0.30% in 4QCY14 due to higher collective assessment allowance from the expansion of its loan book. On average, the 8 banks' CA ratio continued to trend downwards to 1.04% which remains a slight shortfall from BNM's minimum requirement of 1.2% by end 2015.

Table 16: Annualized Credit Cost (%)

Bank	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)
AMMB	0.16	0.29	0.37	0.02	-0.26
Maybank	-0.06	0.23	0.16	0.07	-0.03
Public Bank	0.16	0.15	0.11	0.08	0.10
RHB Cap	0.39	0.17	0.05	0.28	0.11
Hong Leong	0.08	0.10	0.09	-0.06	-0.20
CIMB	0.53	0.19	0.24	0.55	1.39
AFG	0.04	-0.22	0.01	-0.08	0.30
Affin	-0.33	-0.07	0.30	0.13	-0.50
Sector	0.16	0.17	0.17	0.17	0.26

Source: Companies, MIDFR

Chart 4: Sector Average Credit Cost



Source: Companies, MIDFR

Table 17: CA Ratio (%)

Bank	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)
AMMB	2.28%	2.20%	2.20%	2.03%	1.90%	1.78%
Maybank	1.20%	1.10%	1.14%	1.12%	1.08%	1.00%
Public Bank	0.73%	0.72%	0.71%	0.71%	0.70%	0.69%
RHB Cap	1.21%	1.14%	1.11%	1.05%	1.01%	1.00%
Hong Leong	1.25%	1.21%	1.11%	1.04%	1.00%	0.93%
CIMB	1.51%	1.48%	1.45%	1.40%	1.35%	1.26%
AFG	1.11%	1.07%	0.98%	0.95%	0.90%	0.92%
Affin	0.93%	0.83%	0.83%	0.82%	0.83%	0.74%
Average	1.26%	1.26%	1.19%	1.14%	1.10%	1.04%

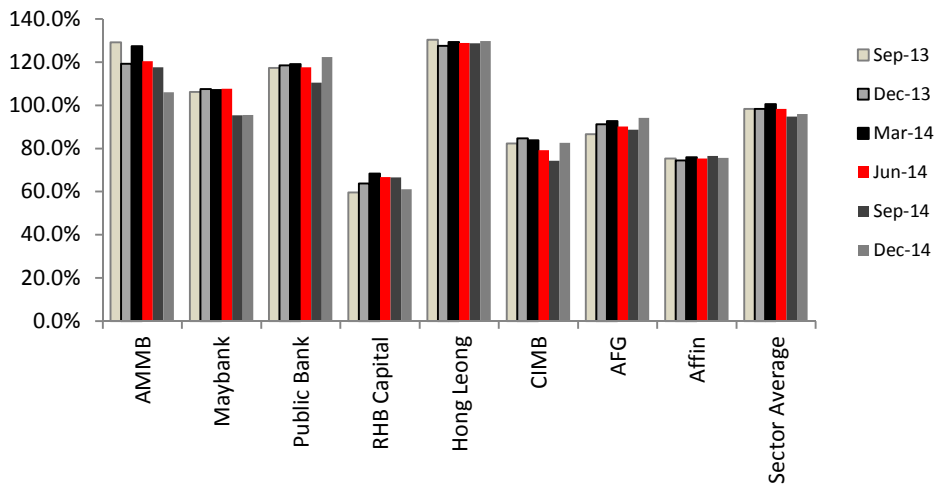
Source: Companies

Table 18: Loan loss coverage (%)

Bank	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)
AMMB	129.2%	119.3%	127.4%	120.5%	117.6%	106.0%
Maybank	106.3%	107.5%	107.2%	107.7%	95.4%	95.6%
Public Bank	117.3%	118.54%	119.13%	117.62%	110.51%	122.40%
RHB Cap	59.6%	63.7%	68.4%	66.7%	66.6%	61.1%
Hong Leong	130.4%	127.5%	129.3%	128.9%	128.7%	129.7%
CIMB	82.2%	84.8%	83.8%	79.2%	74.2%	82.7%
AFG	86.7%	91.2%	92.7%	90.2%	88.6%	94.2%
Affin	75.4%	74.4%	76.0%	75.3%	76.6%	75.6%
Average	98.4%	98.4%	100.5%	98.3%	94.8%	95.9%

Source: Companies, MIDFR

Chart 5: Loan Loss Coverage (LLC)



Source: Companies, MIDFR

- Operating expenses rose by 8.4%qoq and sector's CI ratio increase to 50.1%. The combined overhead expenses grew 8.4%qoq in 4QCY14 as compared to 1.7%qoq in 3QCY14. CIMB reported a rise in operating expenses in the quarter largely due to higher personal cost and administration & general expenses. Meanwhile, Maybank reported an increase in OPEX mainly due to higher personal cost, IT and marketing expenses. Negative JAW was observed in 4QCY14 with growth in OPEX outpacing growth in net income consequently leading to a higher CI ratio on average for the sector of 50.1%.

Table 19: Overhead Expenses (RM'Mil)

Bank	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)
AMMB	562	563	540	481	624	495	496
Maybank	2,329	2,305	2,334	2,168	2,086	2,284	2,573
Public Bank	630	612	630	656	666	649	635
RHB Cap	748	762	818	789	797	841	987
Hong Leong	495	455	460	411	467	429	463
CIMB	2,042	2,059	2,137	2,011	2,008	2,034	2,239
AFG	175	144	144	165	162	161	156
Affin	174	175	195	180	260	299	244
Sector	7,154	7,076	7,258	6,861	7,070	7,190	7,794
Sector (% qoq growth)	-1.3%	-1.1%	+2.6%	-5.5%	+3.0%	+1.7%	+8.4%

Source: Companies, MIDFR

Table 20: Net/Total Income (RM'Mil)

Bank	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)
AMMB	1,198	1,183	1,227	1,141	1,462	1,128	1,011
Maybank	4,813	4,916	4,685	4,435	4,479	4,538	5,079
Public Bank	2,042	2,076	2,060	2,064	2,100	2,248	2,263
RHB Cap	1,432	1,534	1,616	1,468	1,445	1,647	1,677
Hong Leong	975	1,029	1,055	948	1,006	1,015	1,023
CIMB	3,444	3,485	3,797	3,538	3,407	3,529	3,672
AFG	364	315	329	341	337	390	350
Affin	381	391	381	371	470	505	477
Sector	14,650	14,928	15,152	14,307	14,707	14,999	15,552
Sector (% qoq growth)	-0.1%	+1.9%	+1.5%	-5.6%	+2.8%	+2.0%	+3.7%

Source: Companies, MIDFR

Table 21: Cost to Income (CI) Ratio by quarters (%)

Bank	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)
AMMB	46.9%	47.6%	44.0%	42.2%	42.6%	43.9%	49.1%
Maybank	48.4%	46.9%	49.8%	48.9%	46.6%	50.3%	50.7%
Public Bank	30.8%	29.5%	30.6%	31.8%	31.7%	28.9%	28.1%
RHB Cap	52.2%	49.7%	50.6%	53.7%	55.2%	51.1%	58.9%
Hong Leong	50.7%	44.2%	43.6%	43.3%	46.4%	42.3%	45.3%
CIMB	59.3%	59.1%	56.3%	56.8%	58.9%	57.6%	61.0%
AFG	48.0%	45.9%	43.7%	48.4%	48.0%	41.1%	44.7%
Affin	45.6%	44.8%	51.2%	48.6%	55.3%	59.1%	51.1%
Average	47.7%	46.0%	46.2%	46.7%	48.1%	46.8%	50.1%

Source: Companies, MIDFR

Table 22: CET1, Core Capital and Risk Weighted Capital ratios as at end of 4QCY14 (%)

Bank	CET1 Ratio	CCR / Tier-1 Capital Ratio	RWCR / Total Capital Ratio
AMMB	10.4	11.8	16.1
Maybank	11.4	13.2	15.9
Public Bank	10.8	12.2	15.8
RHB Cap *	11.1	11.6	14.5
Hong Leong	10.8 (fully loaded: 9.2)	12.2	14.7
CIMB	10.1	11.5	15.1
AFG	10.9	10.9	12.9
Affin^	12.3	12.3	13.6

^represent ratios at Affin Bank level

*represent ratios of RHB Bank. RHB Cap fully diluted CET1 ratio: 9.8%

Source: Companies, MIDFR

Table 22 shows the capital ratios of banks continued to be above the regulatory requirements for Basel III.

STOCK AND SECTOR RECOMMENDATION

- **Moderate loan growth for CY15 of 8-9% for the sector is maintained with slower domestic consumption and exports.** For CY15, we maintain our loan growth expectation of 8-9% for CY15 on the back of a slower domestic consumption and weaker exports. As exports grow is expected to grow at a slower pace, we anticipate CAPEX spending by companies to slow down. Weaker domestic currency and commodity prices are likely to impact CAPEX spending.
- **Milder NIM compression in CY15.** NIM pressure is likely to still be compressed in CY15. This is due to competition pressure on loans and deposits. Deposit competition in the market will remain stiff. This is due to the liquidity tightness experienced by most banks, operating at LD ratios which are near optimal levels. COF pressure is likely to be greater than pressure on asset yield in impacting banks' NIMs. Nevertheless, we expect milder NIM compression for the sector of 6bp in CY15 vs. 11bp contraction in CY14.

Our economist is now expecting OPR to remain unchanged at 3.25% throughout CY15.

- **Focus on driving CI ratio down and efficiency of capital management will be among key priorities.** With top line growth continues to be seen as challenging, we expect banks to continue to focus on productivity improvement while managing its OPEX. Maximising return on risk weighted assets will be a key priority. Capital raising is a space to be on the lookout. Hong Leong Bank and RHB Capital have mulled capital raising plans for CY15.
- **Credit cost expected to more towards normalized level.** Normalization of credit cost is expected to continue. Credit cost of banks will likely move towards normalized levels with lower recoveries of bad debts.

On asset quality, we expect some upticks on the asset quality of banks for CY15. We continue to be watchful of the asset quality of corporate loans on back on slower economic growth, weaker commodity prices and domestic currency.

- **Market volatility is likely to still pose challenges to treasury and IB income.** Capital market activities remained weak for the start of CY15. we continue to expect volatility to pose challenges to banks treasury income and IB income.
- **Lower ROE and loan growth guidance from banks for CY15 reflect softer market conditions.** Generally, management guidance for ROE and loan growth for CY15 has been lower. This reflects softer market outlook with slowdown in asset growth. Key priorities will be on managing OPEX, COF and capital.

Table 23: Sector core earnings

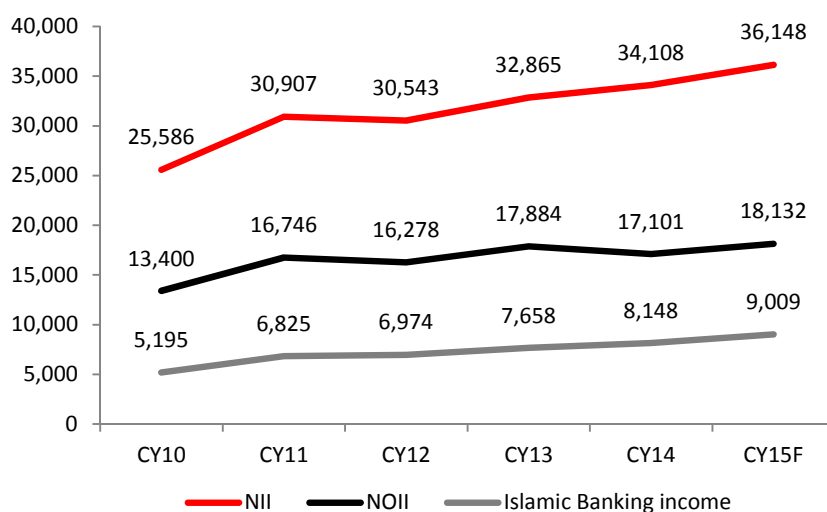
(RM'Mil)	2013	2014F	2015F
AMMB	1,782	1,660	1,748
Maybank	6,552	6,716	6,963
Public Bank	4,065	4,519	4,692
RHB Capital	1,831	2,038	2,205
Hong Leong	1,856	2,102	2,157
CIMB	4,540	3,107	4,162
AFG	564	574	613
Affin	650	605	652
Sector	21,841	21,322	23,193
Sector (% growth)	8.3%	-2.4%	8.8%

*Companies, MIDF forecast. Earnings adjusted for one-off items

We have reduced our expectation for core earnings growth of banks in CY15 from 10.5% to 8.8% as we adjusted our expectations for NOII for banks lower.

Below is the chart showing the breakdown in trend of the key components of bank's net income.

Chart 6: Sector's NII, NOII and Islamic Banking Income (RM'Mil)




Source: Companies, MIDF forecast

Key risks to our expectations: i) Weaker asset quality than expected resulting in higher provisions for loan losses, ii) Slower growth in NOII than expected with capital market activates remaining weak, iii)

Weaker than expected contribution from Banks' International operations, and iv) Stronger pressures on NIM than anticipated.

- **Maintain NEUTRAL on the sector.** Our stocks picks are on Hong Leong Bank (TP: RM16.10), Maybank (TP: RM10.80) and RHB Cap (RM9.50). We continue to like Hong Leong Bank due to its stable asset quality with less concern on impairment of corporate loans, liquid balance sheet, potential for further improvement in CI ratio and stability of the stock with low foreign shareholding of 9.5% as at end Dec'14. On BUY call on Maybank is premised on its diversified asset and attractive dividend yield while on RHB Cap, we continue to advocate BUY on the stock due to its undemanding valuation, improving asset quality, better traction in Islamic Banking via IGNITE 2017 and IB income.

We are NEUTRAL on Public Bank (TP: RM19.50), AHB (TP: 3.30), AMMB (TP: RM7.00), AFG (TP: RM4.70), BIMB (TP: RM3.96) and CIMB (TP: RM6.20). 

	Rec.	Price @ 6/3	Target Price	EPS (sen)		PER		Net DPS		Net Div Yield		BV	BV	PBV	PBV
				14	15	14	15	14	15	14	15	14	15	14	15
AMMB	NEUTRAL	6.34	7.00	59.3	55.0	10.7	11.5	24.1	22.0	3.8	3.5	4.4	4.7	1.5	1.3
Maybank	BUY	9.21	10.80	74.2	75.0	12.4	12.3	57.0	45.0	6.2	4.9	5.7	6.0	1.6	1.5
Public Bank	NEUTRAL	18.66	19.50	123.7	121.0	15.1	15.4	54.0	56.0	2.9	3.0	7.3	7.9	2.6	2.4
RHB Capital	BUY	7.95	9.50	79.7	86.0	10.0	9.2	6.0	11.0	0.8	1.4	7.3	8.0	1.1	1.0
Hong Leong	BUY	14.28	16.10	119.4	115.0	12.0	12.4	41.0	38.0	2.9	2.7	8.2	8.5	1.7	1.7
CIMB	NEUTRAL	5.82	6.20	46.0	50.0	12.7	11.6	19.0	20.0	3.3	3.4	4.5	4.8	1.3	1.2
AFG	NEUTRAL	4.79	4.70	37.2	37.0	12.9	12.9	29.5	22.0	6.2	4.6	2.7	2.9	1.8	1.6
BIMB	NEUTRAL	3.98	3.96	34.3	36.8	11.6	10.8	6.2	7.4	1.6	1.9	2.2	2.4	1.8	1.7
Affin	NEUTRAL	2.91	3.30	35.2	34.0	8.3	8.6	15.0	17.0	5.2	5.8	4.1	4.3	0.7	0.7

Forecasts by MIDFR

Note: *Even though BIMB is under our coverage, this report is based only on the earnings comparison of the large 8 banking groups, which we deemed as more comparable.

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	<i>Negative</i> total return is expected, by -15% or more, over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.